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The Economic Impact of Biggert Waters

A Presentation by NC 20

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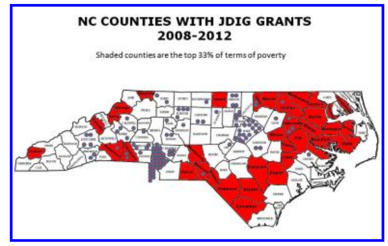
Economically, the eastern part of the State has not kept pace with the Piedmont. Many of our manufacturing plants have disappeared and a quick plot of JDIG grants (below right) suggests that the Piedmont is rapidly pulling away from the East economically. Other than the military, which itself is facing the prospect of substantial drawdowns, the two underpinnings of the coastal economy that are still strong are tourism and retirement. Those two economic engines, however, are in serious trouble. Biggert-Waters, a Federal bill passed in 2012 and henceforth referred to as BW 12, is posing a huge threat to those economic engines and to those who live, visit, and work here. This unbelievably illogical piece of legislation has the potential of decimating the economy of the coastal areas of the United States. This is not hyperbole – it's pure economics. Huge increases in flood insurance premiums will devastate the coast more than any hurricane ever could. Many coastal towns and neighborhoods will become *ghost towns* as the full impact of the huge rates increases drive people from their homes. Banks will be left holding mortgages that are worthless, and the tax base in many of our towns and counties will take precipitous drops. It has already started. How did this happen?



In 2005, Hurricane Katrina hit a town built below sea level and protected, supposedly, by federally built levees. The damage exceeded $16 billion, and much of it was not insured. Never mind: the cost was assumed by FEMA, the Federal agency overseeing the National Flood Insurance Program (NFIP). In its 30 years of covering flood losses, the NFIP, would have been in the black except for Katrina. How many Federal programs can make that claim? Additional damage done to uninsured properties in other states were (and still are) being added to the totals and BW 12 was passed as a reaction. H*ere is the real rub*: North Carolina is a donor State! *We contributed about $200,000,000 more in premiums than we got back in claims!* The NFIP worked here! Believe it or not, even Florida was a donor state. Policyholders in North Carolina are being punished for paying their premiums and abiding by the rules. This is not a projection: it is already happening here and in other states. The question suggests itself: Why are we being punished with outlandish rate increases because of poor decisions by the Federal Government to bail out a City built below sea level and left defenseless by federally built levees? (Super Storm Sandy will be equally tragic).

Did Congress address the problem of uninsured properties? Did Congress thoughtfully consider all of the facts, and assign blame fairly? Did the legislators know that subsidies for certain policyholders who built before FEMA came into existence were a small percentage (about 20% of the total)? That poor management decisions led to rebuilding properties numerous times rather than just buying them out in situations where the future damage potential was obvious? That the program pre-Katrina was supported almost entirely by premiums paid by homeowners? Why of course not. The same Congress that can't ever balance its own budget decided to fix the problem by overcharging property owners who had nothing to do with Katrina, or New York/New Jersey or Vermont storms. How much are we being overcharged? Up to and including thousands of percentage points in many cases.

This is not just about personal pain: our coastal economy will be damaged to an extent that no one can calculate. Retirement, which is a major component of our economy, is very sensitive to housing costs. Fewer retirees will move here. Some that are here may simply leave, unable to pay the premiums or insurance-sensitive rents. The military, which has prospered under our reasonable cost of living, will feel the pain, especially in the lower ranks, as rents increase to cover the insurance increases. The most profound damage will be to lower income families who will simply be priced out of their homes. Bear in mind that this is not a one-time hit to the economy like a hurricane — this is a hurricane that never stops. It goes on year after year. County and city tax bases and revenue will take a sharp and permanent plunge. The State will see the sales tax revenues from coastal tourism dwindling. The cash drain will be felt not years in the future, but starting right now. The multiplier, known to those with backgrounds in economics, can work in reverse too. <u>The Net Present Value of this tragedy will be stated in billions</u>.

Appendix A (attached) is a compilation provided by the Department of Crime Control and Public Safety. It is a glimpse into the magnitude of this problem.

Our only hope lies in substantial and rapid response from our and Federal and State officials. Here is what NC 20 asks of Governor McCrory and our Federal and State legislators:

1. **Understand and accept that this is an economic development issue of the very highest impact**. A recent cartoon in the News and Observer, unfortunately, telegraphs the reaction of many non-coastal dwellers: who cares about the rich owners of beachfront homes and condos. In fact, they are often self-insured or have private placement policies in lieu of the NFIP policies because of the $250,000 limit. An economy is very much like a leaking bucket: water (money) is always "leaking out" thorough depletion, depreciation, obsolescence etc. The Eastern economy has lost such monetary injectors as the massive Weyerhaeuser plant in Plymouth, Hamilton Beach and National Spinning in Beaufort County, and much of DuPont in Kinston. New plant announcements east of I-95 are rare, and the future military drawdown in Onslow County greatly exceeds in scope any manufacturing plant shutdown ever experienced in North Carolina. Simply plotting JDIG grants gives a fairly accurate picture of the course we are on. Crippling the economic bedrocks of our coastal economy, retirement and tourism, should be a cause for alarm.

2. **Organize a State economic development task force devoted to the replacement of Biggert Waters.** A Federal Bill, *H.R. 3370: Homeowner Flood Insurance Affordability Act of 2013* has been filed but has a <u>19% chance of passing</u>. Ask the Governor to join the Legislature in communicating our concerns to the highest levels in Federal Government. Bear in mind that some of our own Federal legislators voted for Biggert Waters. Appropriate resolutions directed to Federal Legislators and shared with other coastal governors would seem obvious. Initiating a highly publicized convocation of Atlantic and Gulf Coast Governors might help to change the tide. We must remember that this issue is considered a <u>budget issue</u> in much of the United States, not an economic miscalculation. If possible, retain lobbyists with the appropriate background in such matters.

3. **Since North Carolina is a donor State, it might be feasible to start our own flood insurance program (or one in conjunction with other coastal states) that reduces or eliminates such problems as repetitive loss properties and payment for losses that were uninsured.** While this may seem quite radical, if BW 12 is passed as is, the economic fallout will be no less so. NC 20 has no idea if this is feasible, but there are four compelling reasons to investigate the potential:

First, if BW is not overturned, the economic damage will demand nothing less than an emergency response from the State as entire coastal communities will face economic devastation. There is no practical way to restore properties to their true values, to restore foreclosed homes, or to reactivate mortgages that were terminated.

Second, the multiplier effect is not hypothetical: retailing, restaurants, service industries, schools and even hospitals were created to serve a base population. As the economy shrinks, so do those businesses and institutions that relied on that population. Property tax rates will almost by definition increase as tax values shrink.

Third, two states have been responsible for much of the red ink. The remaining coastal states may very well be interested in withdrawing from the Federal program in favor of a regional pact.

Lastly, no one can project the scope of the potential damage. Until each and every structure obtains an elevation certificate and insurance quote we can only speculate. NC 20 President Willo Kelly will now give you some idea of the problems inherent in the bill and a picture into the inevitable and tragic future conclusion awaiting personal home and business owners.

ATTACHMENT A

The data attached was prepared for NC 20 by Mr. John Dorman, the Department of Crime Control and Public Safety official in charge of flood mapping among other tasks. He has been invaluable in providing information gleaned from the latest flood mapping study funded by FEMA.

Please note that the structure count includes all structures including residential, commercial, governmental, and institutional. The total real property value (taken from directly from county tax appraisals), exceeds <u>$28 billion dollars</u>. Total coverage, which would include personal property, exceeds <u>$34 billion</u>. Since property is appraised based on the income it can command in any given marketplace, any increase in cost (such as insurance) is subtracted from the rent and the appraised value decreases. Along with that, tax base will decrease. Obviously, the stakes in this conflict are quite high.

Premiums have yet to be clearly established, but Biggert Waters is essentially about raising them; in fact, the increases envisioned are so high in some cases that the Bill provides for phased increases of 25% per year to lessen the pain.

The average claim has been $13,314.12

100-year SPECIAL FLOOD HAZARD AREA DELINEATION ANALYSIS Intersection with Structures and Associated Real Estate Tax Values

		100 Year Flood Zone	
FIPS	County	Real Estate Tax Value	Structure Count
013	Beaufort	$1,088,145,482.00	11,052
015	Bertie	$63,685,494.00	1,296
017	Bladen	$124,507,557.00	1,241
019	Brunswick	$3,082,644,301.00	16,284
029	Camden	$241,493,971.00	2,418
031	Carteret	$3,789,434,722.00	18,673
041	Chowan	$133,188,368.00	862
049	Craven	$1,748,157,148.00	7,681
053	Currituck	$1,716,840,546.00	8,053
055	Dare	$5,429,028,143.00	29,882
073	Gates	$13,831,760.00	184
091	Hertford	$83,761,830.00	401
095	Hyde	$614,379,681.96	6,663
103	Jones	$43,485,737.00	355
129	New Hanover	$6,903,706,497.00	10,485
133	Onslow	$804,595,921.00	7,192
137	Pamlico	$358,525,415.00	4,970
139	Pasquotank	$777,569,239.00	6,762
141	Pender	$626,823,786.00	6,906
143	Perquimans	$202,377,260.00	1,614
177	Tyrrell	$186,607,433.00	2,722
187	Washington	$133,765,202.00	1,364
	Total	$28,166,555,493.96	147,060

National Flood Insurance / Mapping Statistics –

April 2013

Total Number of Structures in SFHA is 265,190
Total Structures in V-Zone is 20,408
Total Structures in A-Zone is 172,797
Total Structures in Shaded X Zones is 71,985

Total Number of Policies is 145,868 Total Policies in V-Zone is 7,891
Total Policies in A-Zone is 84,162
Total Policies in X-Zone is 53,815

Total 2013 Policy Coverage is $34,113,267,500
Total Annual Premiums based on the 2013 Policy Coverage is $108,749,764
Total Premiums paid since 1978 in NC is $1,217,025,374
Total Number of Claims Since 1978 is 77,760
Total Claims paid BY NFIP in NC since 1978 is $1,035,306,108